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[Despatch Abstract.]

DRAFT CONSTITUTION : UNION POWERS COMMITTEE' S REPORT : ALLOCATION OF SOURCES OF REVENUE TO PROVINCES : PAPERS RECORDED.

CONFIDENTIAL

NO.CA/23/Com/47
CONSTITUENT ASSEMBLY OF INDIA.

Report of the Union Powers Committee.

From

The Chairman,
Union Powers Committee.

To

The President,
Constituent Assembly of India

Sir,

On the 28th April 1947, the Honourable Sri N.Gopalaswamy Ayyangar, on behalf of our Committee, presented our first report to the Constituent Assembly. In doing so, he referred to the changes that were developing in the political situation and were likely to affect the nature and scope of the Committee's recommendations and sought permission to submit a supplementary report at a later date. The House was pleased to grant us leave to do so.

2. Momentous changes have since occurred. Some parts of the country are seceding to form a separate State, and the plan put forward in the Statement of the 16th May on the basis of which the Committee was working is, in many essentials, no longer operative. In particular, we are not now bound by the limitations on the scope of Union Powers. The first point accordingly that we considered was whether, in the changed circumstances, the scope of these powers should not be widened. We had no difficulty in coming to a conclusion on this point. The severe limitation on the scope of central authority in the Cabinet Mission's plan was a compromise accepted by the Assembly much, we think, against its judgment of the administrative needs of the country, in order to accommodate the Muslim League. Now that partition is a settled fact, we are unanimously of the view that it would be injurious to the interests of the country to provide for a weak central authority which would be incapable of ensuring peace, of co-ordinating vital matters of common concern and of speaking effectively for the whole country in the international sphere. At the same time, we are quite clear in our minds that there are many matters in which authority must lie solely with the Units and that to frame a constitution on the basis of a unitary State would be a retrograde step, both politically and administratively. We have accordingly come to the conclusion - a conclusion which was also reached by the Union Constitution Committee - that the soundest framework for our constitution is a federation, with a strong Centre. In the matter of distributing powers between the Centre and the Units, we think that the most satisfactory arrangement is to draw up three exhaustive lists on the lines followed in the Government of India Act of 1935, namely, the Federal, the Provincial and the Concurrent. We have prepared three such lists accordingly and these are shown in the Appendix.

We think that residuary powers should remain with the Centre. In view, however, of the exhaustive nature of the three lists drawn up by us, the residuary subjects could only relate to matters which, while they may claim recognition in the future, are not at present indentifiable and cannot therefore be included now in the lists.

3 It is necessary to indicate the position of Indian States in the scheme proposed by us. The States which have joined the Constituent Assembly have done so on the basis of the 16th May statement. Some of them have have expressed themsleves as willing to code wider powers to the Centre than contemplated in that Statement. But we consider it necessary to point out that the application to States in general of the federal list of subjects, in so far as it goes beyond the 16th May Statement, should be with their consent. It follows from this that in their case residuary powers would vest with them unless they consent to their vesting in the Centre.

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4. To enable States and, if they so think fit, Provinces also, to cede wider powers to the Centre, we recommend that the Constitution should empower the Federal Government to exercise authority within the Federation on matters referred to them by one or more Units, it being understood that the law would extend only to the Units by whom the matter is referred or which afterwards adopt the law. This follows the Australian model as set out in Section 51 (xxxvii) of the Australian Constitution Act.

5. We have included in the federal list the item "the strength organisation and control of the armed forces raised and employed in Indian States." Our intention in doing so is to maintain all the existing powers of co-ordination and control exercised over such forces.

6. We recommend to the Assembly the proposals contained in paragrapgh 2-D of our previous report on the subject of Federal taxation. It is quite clear, however, that the retention by the Federation of the proceeds of all the taxes specified by us would disturb, in some cases violently, the financial stability of the Units and we recommend therefore that provision should be made for an assignment, or a sharing, of the proceeds of some of these taxes on a bssis to be determined by the Federation from time to time.

I have the honour to be,
Sir,
Your most obedient servant.

NEW DELHI,
July 5, 1947.

JAWAHARLAL NEHRU
Chairman.

APPENDIX.

List I - Federal Legislative List.

1. The defence of the territories of the Federation and of every part thereof and generally all preparation for defence, as well as all such acts as may be conducive in times of war to its successful prosecution and after its termination to effective demobilisation.

2. Requisitioning of lands for defence purposes including training and manoeuvres.

3. Central Intelligence Bureau.

4. Preventive detention in the territories of the Federation for reasons of State.

5. The raising, training, maintenance and control of Naval, Military and Air Forces and employment thereof for the defence of the territories of the Federation and for the execution of the laws of the Federation and its Units; the strength, organisation and control of the armed forces raised and employed in Indian States.

6. Defence industries.

7. Naval, Military and Air Force Works.

8. Local self-Government in cantonment areas, the constitution and powers within such areas of cantonment authorities, the regulation of house accommodation in such areas and the delimitation of such areas.

9. Arms, firearms, ammunition and emblosives.

10. Atomic energy, and mineral resources essential to its product

11. Foreign Affairs; all matters which bring the Federation into relation with any foreign country.

12. Diplomatic, consular and trade representation.

13. United Nations Organisation.

14. Participation in international conferences, associations and other bodies and implementing of decisions made thereat.

15. War and Peace.

16. The entering into and implementing of treaties and agreements with foreign countries.

17. Trade and Commerce with foreign countries.

18. Foreign loans.

19. Citizenship, naturalisation and aliens.

20. Extradition.

21. Passports and visas.

22. Foreign jurisdiction.

23. Piracies, felonies committed on the high seas and offences committed in the air against the law of nations.

24. Admission into, the emigration and expulsion from, the territories of the Federation; pilgrimages to places beyond India.

25. Port quarantine; seamen's and marine hospitals and hospitals connected with port quarantine.

26. Import and export across customs frontiers as defined by the Federal Government.

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27. The institutions known on the 15th day of August 1947 as the Imperial Library, the Indian Museum, the Imperial War Meseum, the Vicotria Memorial and any other institution declared by Federal law to be an institution of national importance.

28. The institutions known on the 15th day of August 1947, as the Benares Hindu University and the Aligarh Muslim University.

29. Airways
30 Highways and waterways declared by the Federal government to be reginal Highways and waterways.

31. Shipping and naviation on inland waterways, declared by the Federal Government to be federal waterways, as regards mechanically propelled vessels, and the rule of the road on such waterways: carriage of passengers and goods on such waterways.

32 (a) Posts and telegraphs; provided that the rights existing in favour of any individual State Unit at the commencement of this Constitution shall be preserved to the Unit until they are modified or extinguished by agreement between the Federation and the Unit concerned or are acquir by the Federation subject however always to the power of the Federal Parliament to make Laws for their regulation and control.

(b) telephones, wireless, broadcasting, and other like forms of communication, whether owned by the Federation or not;

(c) Post Office Savings Bank.

33. Federal railways; the regulation of all railways (other than minor railways) in respect of safety; maximum and minimum rates and fares, station and service terminal charges, interchange of traffic and the responsibility of railway administrations as carriers of goods and passengers; the regulation of minor railways in respect of safety and the responsibility of the administrations of such railways as carriers of goods and passengers.

34. Maritime shipping and navigation, including shipping and navigation on tidal waters.

35. Admirality jurisdiction.

36. Ports declared to be major ports by or under Federal Law or existing Indian Law including their delimitation.

37. Aircraft and air navigation; the provision of aerodromes, regulation and organisation of air traffic and of aerodromes.

38. Lighthouses, including lightships, beacons and other provision for the safety of shipping and aircraft.

39. Carriage of passengers and goods by sea or by air.

40. The Survey of India, the Geological, Botanical and Zoological Surveys of India; Federal Meteorlor-logical organisations.

41. Inter-Unit quarantine.

42. Federal Judiciary.

43. Acaquisition of property for the purposes of the Federation.

44. Federal agencies and institutes for the following purposes, that is to say, for research, for professional or technical training, or for the promotion of special studies.

45. Census.

46. Offences against laws with respect to any of the matters in this list.

47. Enquiries, surveys and statistics for the purposes of the Federation.

48. Federal services and Federal Public Service Commission.

49. Industrial disputes concering Federal employees.

50. Reserve Bank of India.

51. Property of the Federation and the revenue therefrom; but as regards property situated in a Unit subject always to legislation by the Unit save in so far as Federal Law otherwise provides.

52. Public Debt of the Federation.

53. Currency, foreign excnange, coinage and legal tender.

54. Powers to deal with grave economic emergencies in any part of the territories of the Federal affecting the Federation.

55. Insurance.

56. Corporations, that is to say, the incorporation, regulation and winding up of trading corporations, including banking, insurance and financial corporations, but not including corporations owned or controlled by a Federated State and carrying on business only within that State or co-operative societies and of corporations, whether trading or not, with objects not confined to one Unit, but not including universities.

57. Banking.

58. Cheques, bills of exchanges, promissory notes and other like instruments

59. Patents, copyright, inventions, designs, trademarks and merchandise marks.

60. Ancient and historical Monuments: Archaeological sites and remains.

61. Establishment of standards of weight and measure.

62. Opium, so far as regards cultivation and manufacture or sale for export.

63. Petroleum and other liquids and substances declared by Federal Law to be dangerously inflammable, so far as regards possession, storage and transport.

64. Development of industries where development under Federal control is declared by Federal Law to be expedient in the public interest.

65. Regulation of labour and safety in mines and oilfields.

66. Regulation of mines and oilfields and mineral development to the extent to which such regulation and development under Federal control is declared by Federal Law to be expedient in the public interest.

67. Extension of the powers and jurisdiction of members of a police force belonging to any part of a Governor's Province or Chief Commissioner's Province to any area in another Governor's Province or Chief Commissioner's Province, but not so as to enable the police of one part to exercise powers and jurisdiction elsewhere without the consent of the Government of the Province or the Chief Commissioner, as the case may be; extension of the powers and jurisdiction of members of a police force belonging to any Unit to railway areas outside that Unit.

68. All Federal elections; and Election Commission to superintend, direct and control all Federal and Provincial elections.

69. The salaries of the Federal Ministers and of the Chairman and Vice Chairman of the Council of States and of the Speaker and Deputy Speaker of the House of the People; the salaries, allowances and privileges of the members of the Federal Parliament.

70. The enforcement of attendance of persons for giving evidence or producing documents before committees of the Federal Parliament.

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71. Duties of customs including export duties.

72. Duties of excise on tobacco and other goods manufactured or produced in India except -

(a) alcoholic liquors for human consumption;
(b) Opium, Indian hemp and other narcotic drugs and narcotics; non-narcotic drugs;
(c) medicinal and toilet preparations containing alcohol, or any substance included in sub-paragraph (b) of this entry.

73. Corporation tax.

74. State lotteries.

75. Migration from one Unit to another.

76. Jurisdiction and powers of all courts, with respect to any of the matters in the list.
77. Taxes on income other than agricultural income.
78. Taxes on the capital value of the assets, exclusive of agricultural land, of individuals and companies; taxes on the capital of the companies
79. Duties in respect of succession to property other than agricultural land.
80. Estate duty in respect of property other than agricultural land.
81. The rates of stamp duty in respect of bills of exchange, cheques, promisory notes, bills of lading, letters of credit, policies of insurance, transfer of shares, debentures, proxies and receipts.
82. Terminal taxes on goods or passengers carried by railway or air; taxes on railway fares and freights.
83. The development of inter-Unit waterways for purposes of flood control, irrigation, navigation and hydro-electric power.
84. Inter Unit trade and commerce.
85. Fishing and Fisheries beyond territorial waters.
86.* Federal manufacture and distribution of salt; regulation and control of manufacture and distribution of salt by other agencies.
87. Fees in respect of any of the matters in this list, but not includes fees taken in any Court.

* Note: Section should be incorporated in the Constitution itself prohibiting the imposition of any duty or tax on salt.

LIST II - PROVINCIAL LEGISLATIVE LIST.

1. Public order (but not including the use of naval, military or air forces in aid of the civil power); the administration of justice; constitution and organisation of all courts, except the Supreme Court, and fees taken therein; preventive detention for reasons connected with the maintenance of public order; persons subjected to such detention.

2. Jurisdiction and powers of all courts except the Supreme Court, with respect to any of the matters in this list; procedure in Rent and Revenue Courts.

3. Police, including railway and village police.

4. Prisons, reformatories, Borstal institutions and other institutions of a like nature, and persons detained therein; arrangements with other Units for the use of prisons and other institutions.

5. Public debt of the Province.

6. Provincial Public Services and Provincial Public Service Commission.

7. Works, lands and buildings vested in or in the possession of the Province.

8. Compulsory acquisition of land except for the purposes of the Federation.

9. Libraries, museums and other similar institutions controlled or financed by the Province.

10. Elections to the Provincial Legislature, and of the Governors of the Provinces subject to the provisions of paragraph 66 of List I.

11. The salaries of the Provincial Ministers, of the Speaker and Deputy Speaker of the Legislative Assembly, and if there is a Legislative Council, of the Chairman and Deputy Chairman thereof; the salaries, allowances and privileges of the members of the Provincial Legislature; and the enforcement of attendance of persons giving evidence or producing documents before Committees of the Provincial Legislature.

12. Local Government, that is to say, the Constitution and powers of municipal corporations, improvement trusts, district boards, mining settlements authorities and other local authorities for the purpose of local self-government or village administration.

13. Public health and sanitation; hospitals and dispensaries; registration of births and deaths.

14. Pilgrimages; other than pilgrimages to places beyond India.

15. Burials, and burial and burning grounds.

16. Education including Universities other than those specified in paragraph 28 of List I.

17. Communications, that is to say, roads, bridges, ferries and other means of communication not specified in List I; minor railways subject to the provisions of List I with respect to such railways; municipal tramways; ropeways; inland waterways and traffic thereon subject to the provisions of List I and List III with regard to such waterways, ports, subject to the provisions in List I with regard to major ports; subject to the provisions in List I with regard to major ports, vehicles other than mechanically propelled vehicles.

18. Water, that is to say, water supplies, irrigation and canals, drainage and embankments, water storage and water power.

19. Agriculture, including agricultural education and research, protection against pests and prevention of plant diseases; improvement of stock and prevention of animal diseases; veterinary training and practice; pounds and the prevention of cattle trespass.

20. Land, that is to say, rights in or over land, land tenures, including the relation of landlord and tenant, and the collection of rents, transfer, alienation and devolution of agricultural land; land improvement and agricultural loans, colonization; Courts of Wards: encumbered and attached estates, treasure ~~trove~~ troves.

21. Forests.

22. Regulation of mines and oil fields and mineral development subject to the provisions of List I with respect to regulation and development under Federal Control.

23. Fisheries.

24. Protection of wild birds and wild animals.
25. Gas and gasworks.
26. Trade and commerce within the Province; markets and fairs.
27. Money lending and money lenders.
28. Inns and inn-keepers.
29. Production, supply and distribution of goods, development of industries, subject to the provisions in list I with respect to the development of certain industries under Federal Control.
30. Adulteration of foodstuffs and other goods.
31. Weights and measures except establishment of standards.
32. Intoxicating liquors and narcotic drugs, that is to say, the production, manufacture, possession, transport, purchase and sale of intoxicating liquors, opium and other narcotic druges, but subject, as respects opium, to the provisions of List I and, as respect poisons and dangerous drugs, to the provisions of List III.
33. Relief of the poor; unemployment.
34. The incorporation, regulation, and winding up of corporations not being corporations specified in List I, or Universities, unincorporated trading, literary, scientific, religious and other societies and associations; co-operative societies.
35. Charities and charitable institutions; charitable and religious endowments.
36. Theatres, dramatic performances and cinemas, but not including the of cinematograph fils for exhibition.
37. Betting and gambling.
38. Offences against laws with respect to any of the matters in this list.
39. Inquiries and statistics for the purpose of any of the matters in this list.
40. Land revenue, including the assessment and collection of revenue, the maintenance of land records, survey for revenue purposes and records of rights, and alienation of revenue.
41. Duties of excise on the following goods manufactured or produced in the Province and countervailing duties at the same or lower rates on similar goods manufactured or produced elsewhere in the territories of the Federation -
    (a) alcoholic liquors for human consumption;
    (b) opium, Indian hemp and other narcotic drugs and narcotics; non-narcotic drugs;
    (c) medicinal and toilet preparations containing alcohol or any substance included in sub-paragraph (b) of this entry.
42. Taxes on agricultural income.
43. Taxes on lands and buildings, hearths and windows.
44. Duties in respect of succession to agricultural lands.
45. Estate duty in respect of agricultural land.
46. Taxes on mineral rights, subject to any limitations imposed by any Act of the Federal Parliament relating to mineral development.
47. Capitation taxes.
48. Taxes on professions, trades, callings and employments.
49. Taxes on animals and boats.
50. Taxes on the sale of goods and on advertisements.
51. Taxes on vehicles suitable for use on roads, whether mechanically propelled or not, including tramcars.
52. Taxes on the consumption of sale of electricity.
53. Cesses on the entry of goods into a local area for consumption, use or sale therein.
54. Taxes on luxuries, including taxes on entertainments, amusements, betting and gambling.
55. The rates of stamp duty in respect of documents other than those specified in the provisions of List I with regard to rates of stamp duty.
56. Dues on passengers and goods carried on inland waterways.
57. Tolls.
58. Fees in respect of any of the matters in this list, but not including fees taken in any court.

LIST III - CONCURRENT LEGISLATIVE LIST.

1. Criminal law, including all matters included in the Indian Penal Code at the date of commencement of this Constitution, but excluding offences against laws with respect to any of the matters specified in List I or List II and excluding the use of the naval, military and air forces in aid of the civil power.

2. Criminal Procedure, including all matters included in the Code of Criminal Procedure at the date of commencement of this Constitution.

3. Removal of prisoners and accused persons from one Unit to another Unit.

4. Civil Procedure, including the law of Limitation and all matters included in the Code of Civil Procedure at the date of commencement of this Constitution; the recovery in a Governor's Province or a Chief Commissioner's Province of claims in respect of taxes and other public demands, including arrears of land revenue and sums recoverable as such, arising outside that Province.

5. Evidence and oaths; recognition of laws, public acts and records and judicial proceedings.

6. Marriage and divorce; infants and minors; adoption.

7. Wills, intestacy, and succession, save as regards agricultural land.

8. Transfer of property other than agricultural land; registration of deeds and documents.

9. Trusts and Trustees.

10. Contracts, including partnership, agency, contracts of carriage, and other special forms of contracts, but not including contracts relating to agricultural land.

11. Abbitration.

12. Bankruptcy and insolvency.

13. Administratiors-General and official trustees.

14. Stamp duties other than duties or Fees collected by means of judicial stamps, but not including rates of stamp duty.

15. Actionable wrongs, save in so far as included in laws with respect to any of the matters specified in List I or List II.

16. Jurisdiction and powers of all Courts, except the Supreme Court, with respect to any of the matters in this list.

17. Legal, medical and other professions.

18. Newspapers, books and printing presses.

19. Lunacy and mental deficiency, including places for the reception or treatment of Lunatics and mental deficients.

20. Poisons and dangerous drugs.

21. Mechanically propelled vehicles.

22. Boilers.

23. Prevention of cruelty to animals.

24. Vagrancy; nomadic and migratory tribes.

25. Factories.

26. Welfare of labour; conditions of labour; provident funds;

employers' liability and workmen's compensation; health insurance, including invalidity pensions; old-age pensions.

27. Unemployment and social insurance.

28. Trade unions; industrial and labour disputes.

29. The prevention of the extension from one unit to another of infectious or contagious diseases or pests affecting men, animals or plants.

30. Electiricity.

31. Shipping and navigation on inland waterways as regards mechanically propelled vessels, and the rule of the road on such waterways, and the carriage of passengers and goods on inland waterways subject to the provisions of List I with respect to Federal waterways.

32. The sanctioning of cinematograph films for exhibition.

33. Persons subjected to preventive detention under Federal Authority.

34. Economic and social planning.

35. Inquiries and statistics for the purpose of any of the matters in this List.

36. Fees in respect of any of the matters in this List, but not including fees taken in any Court.

(a) Rs.9.59 crores anticipated from Excise Revenue;

(b) Rs.3.87 crores being subventions anticipated from the Government of India towards post-war development schemes: and

(c) Rs.1.49 crores being the amount of transfer from the Revenue Reserve Fund to the Revenue Account in order to wipe out the estimated revenue deficit in 1947-48.

Total. 14.95 crores.

If this sum is excluded from the total revenue of Rs. 49.73 crores, the normal revenue works out to Rs. 34.78 crores or Rs. 35 crores roundly. It has been pointed out that additional resources to the extent of Rs. 15 crores should be found. In other words, the normal revenue should be increased from Rs. 35 crores to Rs. 50 crores per annum.

4. There are two taxation proposals under the consideration of the Government: (i) levy of a tax on agricultural income and (ii) enhancement of the rate of General Salestax. It is unlikely that a tax on agricultural income will be levied in the near future, as the Government have decided not to proceed with the Bill for the levy of the tax at present. No additional revenue can be anticipated from this source for the present. As regards General Salestax, there is a proposal to enhance the rates from the 1st October 1947, if possible, by a Finance Act. At any rate, the revised rates are likely to come into force from the 1st April ~~1948~~ 1948. This measure is expected to yield an additional revenue of Rs. 3 crores per annum. It does not, however, seem desirable to take this measure into account in arriving at an increase of Rs. 15 crores. If there is a fall in prices there will be a serious decline in revenue under every head and it is necessary to allow a reserve. Any increase from enhancement of General Salestax or levy of Agricultural Incometax may be held as a reserve against possible decline in revenue due to fall in prices.

5. The following statement shows the total revenue, charges of collection and net revenue in 1945-46 relating to the principal heads of revenue relating to the Central Government under which transactions occur in the Province of Madras. (The actuals for 1946-47 are not yet available. Figures for

Revised Estimate for 1946-47 and Budget Estimate for 1947-48 are available for India as a whole, but the figures for Madras are not yet available)

Head of Account	Gross Total Central Revenue	Total collection charges	Net total Central Revenue	Gross Central Revenue Collected in Madras	Collection charges for Madras	Net Central Revenue collected in Madras.
-1-	-2-	-3-	-4-	-5-	-6-	-7-
	Rs lakhs	Rs lakhs (116.09)	Rs lakhs	Rs lakhs	Rs lakhs	Rs lakhs
Customs	6246.73	116.09	6130.64	855.20	18.91	836.29
Central Excise Duties	4605.74	218.41	4387.33	636.46	46.94	589.52
Corporation Tax.	8009.59	63.32 R.E	7946.27	564.86	4.00 (rough estimate)	560.86
Taxes on Income other than Corporation Tax.	6896.79	127.77	6769.02	748.76	17.98	730.78
Salt	1010.49	208.92	810.57	216.10	23.46	192.64
Total:	26778.34	734.51	26043.83	3021.38	111.29	2910.09

Salt duty is proposed to be abolished and this may be left out of account in connection with the examination of the question of getting a share of revenue from Central sources.

As regards Customs, the following extracts from the Report of the Indian Taxation Enquiry Committee and the Government of India Act, 1935, will be of interest:-

Paragraph 522 of the Report of the Indian Taxation Enquiry Committee 1924-25.

Taxes on consumption Customs Duties

" The next category of taxes are the taxes on consumption, that is to say, customs and excise duties. It has been pointed out that customs duties on imports have been set apart, in all countries as a source of Imperial taxation, since it is the duty of the Imperial Government to regulate inter-State trade and because the incidence of these taxes is not traceable. This is a principle from which India cannot claim exemption. The case of customs duties on exports is somewhat different. In some cases it is possible to trace the origin of the exported goods, and it has been urged, for instance, in the case of tea, that if there were no export duty, the trade would be quite ready to bear an equivalent ~~trad~~ burden in the shape of State or local taxation, provided they were assured that the money would be spent for the benefit of the locality. ....."

Section 140(1) of the Government of India Act, 1935.

Central Excise Duties and Salt.

"Duties on salt, Federal duties of excise and export duties shall be levied and collected by the Federation but if an Act of the Federal Legislature so provides, there shall be paid out of the revenues of the Federation to the Provinces and to the Federated States, if any, to which the Act imposing the duty extends, sums equivalent to the whole or any part of the net proceeds of that duty, and those sums shall be distributed among the Provinces and those States in accordance with such principles of distribution as may be formulated by the Act".

With reference to "M" above, import duties may be left out of account in examining the question of asking for share of Central Revenues. As regards export duties Section 140(1) of the Government of India Act, 1935, permits assignment of a share of the net proceeds to Provinces. The Government of India may be asked for a share of the net proceeds of these duties.

As regards the remaining sources mentioned in the statement on p.4 above, viz. Central Excise duties, Corporation Tax and Taxes on Income other than Corporation Tax, the Central Government may be pressed for allocation of a share to Provinces newly or for enhancement of the shares now allocated. The position under the Government of India Act, 1935, and the appropriateness of asking the Central Government for a share of the proceeds of these taxes is examined in the Sectional Notes below.

Certain other additional sources, such as levy of a Provincial surcharge on Income tax, levy of Estate and Succession duties, Terminal Taxes, etc., have also been examined in the Sectional Notes.

6. If the suggestions in the ~~seeeral~~ sectional notes are accepted, additional revenue as shown below may be expected.

	If 75% of Corporation Tax and Income tax and the whole of export duties are to be distributed.	If 60% of Corpn. tax and Income tax and 50% of export duties are to be distributed.	If 50% of Corpn. tax & Incometax and export duties are to be distributed.
	Rs. crores.	Rs. crores.	Rs. crores.
Central Excises.	6.00	6.00	6.00

	-1-	-2-	-3-
~~Corporation Tax.~~ Corporation Tax.	Rs.crores 4.50	Rs.crores 3.50	Rs.crores. 3.00
Income Tax	3.00	1.25	..
Export duties.	1,20	.60	.60
Surcharge on Incometax	65	.65	.65
Share of customs and taxes on motor spirit, motor vehicles, etc.	1.50	1.50	1.50
	16.85	13.60	11.75

In this connection, it may be pointed out that the Government of India are not likely to make any grant for post-war development schemes if allocation of new sources of revenue as suggested above are made. This will mean a decrease of Rs. 5 or 6 crores per annum.

7. The Government of the Union of India may not be able to say now what their financial position would be after the partition, when the new Provinces of West Bengal and East Punjab will be added to it and the Provinces to be included in Pakistan will be separated from it. It may take some time for them to have a reliable estimate of their revenue and expenditure under the changed conditions. The question is whether they will be in a position to make any definite commitment now in regard to allocation of a share of their resources under any of the heads mentioned in para 5 above to Provinces. In any case, it is open to us to make suggestions to them, so that they may consider them as soon as possible.

xx/8.8.47

The suggestions made in the notes would leave the Federation with only Customs (other than 50 per cent of Customs revenue from Motor Spirit, Motor Vehicles and export duties) 25 per cent of the total yeield of income tax and a portion of the Corporation tax as the principal sources of revenue. The need for a strong Centre has been stressed by the Union Powers Committee and making all allowance for our requirements, it is very doubtful whether it would be practicable for the Centre to make over so much of their revenues to Provinces. I have therefore ventured to suggest that we may ask for only for -

	Additional net revenue per annum for Madras.
(1) All Excise duties which are now Central	Rs. 6 crores
(2) either Increase in share of income-tax to be given to Provinces from 50% to 75%	
or 50% of the Corporation Tax to be apportioned.	Rs. 3 crores
(3) Power to levy a Provincial Surcharge on income-tax at 12½ per cent.	Rs. 65 lakhs
(4) 50% of the Customs Revenue from the import of Motor Spirit and Motor Vehicles to be given to Provinces	Rs. 50 lakhs
(5) 50% share of Export duties to be given to Provinces.	Rs. 60 lakhs
Grand Total.	Rs. 10.75 crores.

T.N.S.R./8.8.1947
Addl.Secy.

According to my suggestions in the sectional ~~notes~~ notes, we may ask for:-

	Additional net revenue per annum for Madras. Rs. crores.
(1) Central Excise to be made Provincial.	6.00
(2) Provinces share of income-tax to be raised from 50% to 60%	1.25
(3) Provinces to be given 60% o Corporation Tax.	3.60
(4) Provinces to be allowed to levy 12½% surcharge on personal income tax paid by residents in the province.	0.65
(5) 50% of customs revenue from motor spirit or motor vehicles to be distributed to Provinces.	1.00
(6) 50% of revenue from export duties to be distributed to Provinces.	0.60
Total.	Rs. 13.10 crores.

D.W.D./8-8-1947
Secretary.

I want 2 and 3 to be raised to 75 per cent. I am not in favour of (4).

B.G.R.
11.8-1947
H.M.(Finance)

Finance Deptt.

Please see the record of discussions at the Conference held on the 11th August 1947 (taken by the reporters of the Legislature Secretariat) on pages 19-24 c.f.

2. The invitees to the Conference generally accepted the suggestions made by H.M.(Finance) in his opening speech that the Central Government should be asked for a share of the net proceeds from the Central Excise duties and Export duties and Corporation Tax and a larger share of the net proceeds from Income-tax, subject to the condition that sufficient resources were left with the Centre to enable it to function as a strong Central Government. As regards the suggestion that the Central Government should be asked to surrender a share of the import duties on motor spirit, motor vehicles, etc., to enable provinces to attend to improvements to roads properly, Sri T.A. Ramalingam Chettiar said that Provincial Governments could claim a share of the import duty on motor spirit, but not of the duty on motor vehicles. He did not give any reasons in support of the view. The invitees to the Conference also made some new suggestions. e.g. manufacture and sale of salt should be made a Provincial subject and not a Federal subject: Agricultural Incometax and Succession duty on agricultural ~~incomes~~ property may be made Federal etc. These suggestions are examined in the sectional notes. Where the suggestions relate to a subject already dealt with in the sectional notes further notes have been added in continuation of the original notes. In regard to new suggestions, new sectional notes have been added at the end of the existing sectional notes. Orders are requested on the further notes on pages 15-16. 17-18(a), 22-23, 25-26, 27, 29-31, 33-34, 35 and 37 of sectional notes

3. As a result of the discussion at the Conference, the main conclusion reached was that at this stage we could not ask for allocation of specific percentages of Central sources of revenue, but that it would be sufficient to press for inclusion in the new Constitution Act of provisions similar to those in Sections 137, 138, 140 and 141 (with suitable modifications in wording to suit the new Constitution). It was also considered that the question of the percentages of revenue from Central sources to be distributed to

to Provinces might be taken up later after the Central Government had been able to frame a fairly reliable estimate of the receipts and expenditure of the Indian Union.

Sri T.T. Krishnamachai suggested that the Province might ask for a lump sum contribution to tide over the present crisis and reserve to themselves the right to re-open the question when the Constitution had been finally settled and that the Province might also ask for a Taxation Enquiry Committee.

A slump sum grant or "Block" grant is now given by the Government of India for post-war development schemes and Grow More Food Schemes. It is not likely that the Government of India would make any further lump sum grant until the permanent allocation of the sources of revenue between the Central and Provincial Government is settled. Sri T.T. Krishnamachari also suggested that the Government of India might be pressed for separate grants for post-war development schemes and grow more food schemes. This has already been considered by the Government and the Government of India have been addressed. No reply has been received from the Government of India. No further action is necessary in the matter.

XX/13-8-1947

D.W.D./14.8.1947
Secretary.

B.G.K./15.8
H.M.(Fin).

FINANCE DEPARTMENT.

As directed by Secretary, an extract of the sectional notes on pp 25-26 of the sectional notes relating to the manufacture and sale of salt by Provincial Governments have been sent to Revenue for necessary action.

As regards the remaining points dealt with in the sectional notes, it is presumed that no action need be taken till the proposed expert committee to examine the question of allocation of financial resources between the Dominion Government and the Provinces is constituted - c.f. the cutting from the "Hindu" dated 5-9-1947 at flag "F"

"X"

In two cases, it was suggested that the Government of India might be addressed, namely, to expedite action in regard to legislation for levy of death duties and to undertake legislation for the levey

of ~~death~~ terminal taxes. The Constitutent Assembly ~~will~~ functioning as Dominion Legislative Assembly will have to pass these measures. It does not appear that the Government of India will take action in regard to these measures now. For orders whether they should be addressed now as suggested on pages 15 and 17 of sectional notes.

xx/9-9-1947

Perhaps "A" above may be done now, though it is unlikely that the Government of India will be willing to take action on these points at the moment and they will probably want to defer action on them till the new Constitution has been introduced. For orders whether "A" above may be done.

It is presumed that no further action is necessary at present, pending the appointment of an Expert Committee (as at X above) by the Constitutent Assembly.

D.W.D./10-9-1947
Secretary.

Can't the Government purchase all salt manufactured in our province and sell it in wholesale market?" Food Deptt. may examine.

B.G.R./11-9.
H.M.(Fin).

Finance Deptt.

Please see the notes and orders on page 11 above. As this file will be required for reference in this Department, relevant extracts of notes together with a copy of pages 25-26 of the sectional notes has been sent to the Food Deptt.)approved.)D.W.D

2. B on page 11 above: H.M.(Fin) has not passed definite orders on the point whether the Government of India should be addressed ~~addressed~~ now. It is presumed that his intention is that no action need be taken for the present.) I spoke to H.M. This is his intention D.W.D.

xx/13-9-47

D.W.D./15-9-1947
Secretary.

Finance (Bud.Genl) Deptt.

The financial provisions embodied in the draft Union Constitution as well as the recommendations of the Expert Committee on the subject of "Distribution of Revenues between the Centre and Provinces" are examined in a separate file.

The papers on this file may be recorded in a G.O. for facility of future reference.

G.O.(Ms) No. 576 Finance dated the 11th June 1948.

R e c o r d e d.

Abstract:

DRAFT CONSTITUTION - Union Powers Committee's Report - Allocation of sources of revenue to Provincies Papers - Recorded.

/True copy/

Superintendent,
Madras Records Office, Egmore.

Sk.

2/5/6